HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Edmonton CMA

Canada Mortgage and Housing Corporation

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NEW HOME MARKET

New Home Construction to Pull Back in 2008

Total housing starts reached 14,888 units in 2007, the third best year on record and only 82 units shy of 2006's record performance. Last year also represented an unprecedented sixth consecutive year that total housing starts across Metro exceeded 11,000 units on an annual basis. This phenomenal run will however take a breather this year as the new housing industry copes with weaker demand associated with lower net migration, competition from a well-supplied existing home market, and an overhang of unoccupied new units. Rapid price growth from previous years will also inhibit demand. Total starts this year will tumble to 9,500 units, representing a 36 per cent drop from 2007 and the weakest performance since 2001. Next year will witness a modest improvement in housing starts, providing the supply adjustment

Figure 1

Source: CMHC, CMHC Forecast

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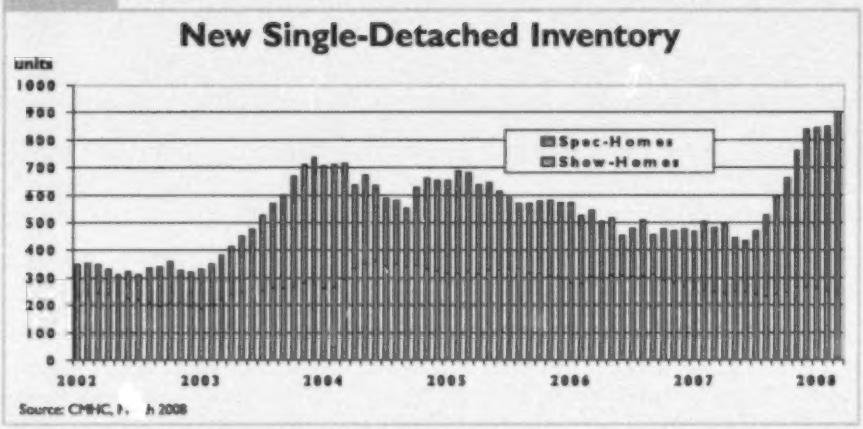
Figure 2



process runs its course and markets become more balanced.

Fewer Single-Detached Starts in 2008

While the 7,682 single-detached starts reported in 2007 were 15 per cent below the previous record-setting year, this still represented the second best year on record for the region's home builders. However, new home inventories have been on the upswing since July 2007 and builders have been adjusting their starts activity accordingly. The slowdown which began in late summer has intensified in the early months of 2008 as builders deal with an inventory buildup and a relatively well supplied existing home market. Single-detached starts fell by 62 per cent year-over-year in the first quarter of 2008, for the weakest performance since 1997.

Single-detached starts will decline by 41 per cent this year to 4,500 units, representing the lowest level of activity since 2000. Most of the pull back, however, will occur in the first half of the year with builder sentiment improving as the year progresses. Completed and unoccupied new singles including show homes stood at a record 902 units in March, representing the ninth consecutive monthly increase and an 87 per cent gain over March 2007. The good news for builders was that total new supply, which is the combination of unoccupied inventory and units under construction, decreased for the second month in a row in March due to the pull back in starts. Should this trend continue through 2008, builders will start to slowly ramp up production. The rebound should begin in 2009, albeit at a tepid pace, with single starts reaching 5,200 units.

New House Prices Remain on Upswing

Single-detached homes absorbed in 2007 across the Capital region for an annual average price of $438,866, which was 42 per cent higher than reported for all of 2006. However, with builders carrying an ever increasing inventory of spec homes, advertised prices have been in retreat for many unit types since the late summer of 2007. The Statistics Canada New House Price Index has been decelerating in recent months and this will show up in CMHC's market absorption survey price numbers going forward.

The average price of a new single-detached home absorbed in the first quarter rose by 29 per cent over the first three months of last year to $485,510. However, the selling price

Table 1
New Single-Family Absorptions by Area
January - December (% chg 2006/2007)

	Absorptions			Average Price ($)		
	2006	2007	%chg	2006	2007	%chg
North Central	90	68	-24.4	363,408	500,137	37.6
Northeast	728	684	-6.0	273,965	386,230	41.0
Northwest	759	551	-27.4	284,016	416,222	46.5
South Central	55	44	-20.0	422,375	594,216	40.7
Southeast	780	794	1.8	304,721	476,684	56.4
Southwest	1,551	1,305	-15.9	315,798	434,833	37.7
West	692	710	2.6	316,744	458,282	44.7
Total Edmonton City	**4,655**	**4,156**	**-10.7**	**304,538**	**439,892**	**44.2**
Fort Saskatchewan City	159	156	-1.9	337,158	494,574	46.7
Leduc City	201	375	86.6	280,615	394,710	40.7
Parkland County	139	271	95.0	304,342	352,664	15.9
Spruce Grove City	290	396	36.6	242,814	287,980	18.6
St. Albert City	294	260	-11.6	410,594	628,597	53.1
Stony Plain Town	121	171	41.3	256,187	309,689	20.9
Strathcona County	604	669	10.8	364,210	558,939	53.5
Total Rural Municipalities	**2,484**	**3,123**	**25.7**	**316,575**	**438,567**	**38.5**
Grand Total	**7,139**	**7,279**	**2.0**	**388,726**	**438,866**	**42.2**

Source: CMHC

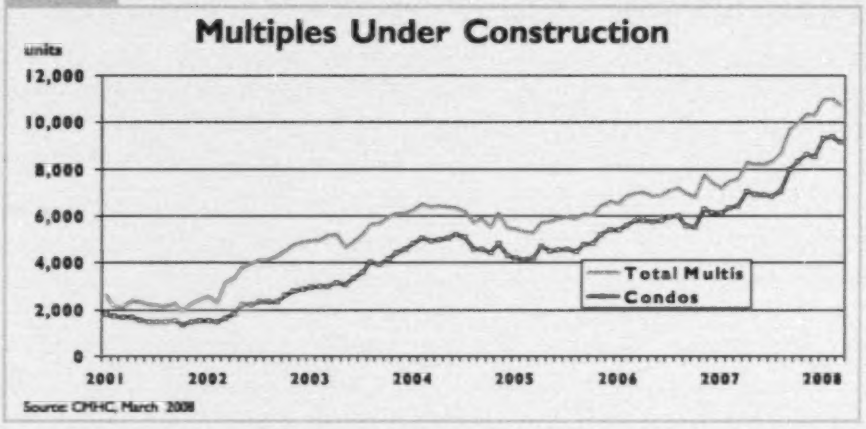
of most of these homes was agreed to at the time of sale several months prior. As a result, the above mentioned price gains are more reflective of past accelerating or sellers' market conditions than the current buyer's market conditions. CMHC expects the growth rate of price change for absorbed units to continue moderating in the months ahead as current sales agreements are impacted by the buyer's market conditions for both new and existing single-detached homes. By year-end, the average absorbed price of a single-detached unit will reach $490,000, up about 12 per cent from 2007.

Meanwhile, builders continue to face cost pressures for components such as serviced land, concrete, asphalt, and gravel although the slowdown has improved labour supply and the lumber inputs remain near cyclical lows. The improvement in market balance in 2009 will enable builders to begin recouping some of the margin they had to give up this year in order to make a sale. In 2009, the average absorbed price is forecast to rise by five per cent to $515,000. This will be the weakest year-over-year gain since 2001 when the average price of a new single-detached home increased by 2.8 per cent.

Multiple Dwelling Starts Lower in 2008

Last year, the 7,206 multiple unit starts recorded across Metro exceeded the volumes reported in 2006 by 22 per cent, representing the best performance for the region since 1982. Considering the high volume of units under construction

Figure 3

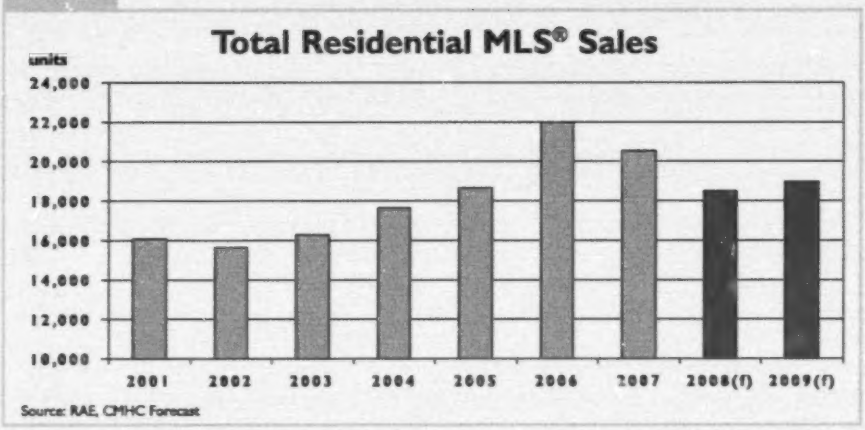


this spring, combined with a relatively well-supplied existing condo market, CMHC expects multiple starts to throttle-back substantially this year to 5,000 units, representing the lowest output since 2004. Completions will ramp up in the months ahead causing the supply of completed and unoccupied units to reach the highest level in over a decade by this fall. Production in 2009 will remain near 2008 levels to allow both new and resale inventories return to a more balanced position.

The new condo market in particular appears to be ripe for a strong adjustment in starts activity. With resale condo listings also expected to rise this spring, higher levels of never occupied inventory, particularly condo apartments, is an apparent challenge facing the industry going forward. Projects that are currently marketing but have yet to break ground will find the pre-sales they require for project financing hard to achieve due to the large number of buildings already underway. This will cause some developers to scale back their plans or defer them into 2009 or beyond. The higher inventories will also put a brake on price gains amid an environment of continued rising constructions costs. This, combined with a more cautious institutional lending environment, will undermine the viability of some proposals.

New rental activity in 2008, meanwhile, will remain modest at under 800 units, well below the cyclical peak volumes achieved in 2001-2003. With the condo apartment market looking overbuilt this year, some builders may revert to rental construction, including life lease, in order to keep crews busy. Their major challenge will be containing costs in an effort to achieve financial viability as a commercial rental property. The remaining rentals expected this year will be supported by some level of incentive from government affordable housing initiatives.

Figure 4



RESALE MARKET

Existing Home Sales Remain Weak in 2008

Existing home sales in 2007 fell by almost seven per cent from the record MLS® performance of 21,984 units set in 2006, with most of the downturn occurring in the second half of the year. Sales were particularly weak in the fourth quarter and this softness has continued in the first quarter of 2008. With sale prices softening in the summer of 2007, a number of speculators and investors decided to divest the properties they had scrambled to buy during the accelerating market phase which ran from January 2006 until May 2007. As a result, a dramatic upsurge in listings occurred during the second quarter of last year, the same time sales began to slow due to consumer price resistance and reduced speculative fervor.

In general, market conditions have favoured buyers since the fall of 2007 and we see little change in store during the first half of 2008. Sales will remain soft for much of the year and will end 2008 down by 10 per cent to 18,500 units. Market weakness should subside as the year progresses, with demand improving once prospective buyers gain some confidence that the adjustment phase has run its course and the price trend has stabilized. This said, a lot will depend on the behavior of investors and speculators who purchased units during the accelerating market conditions. Some may become unnerved by the expected surge in recently-completed condo units and decide to sell, especially if renting them out profitably becomes harder to achieve. In this scenario, markets would continue to favour buyers and prices will see little improvement from current levels, thus prolonging the recovery to balanced market conditions. Sales should stage a modest rally in 2009 but will be contained by slower in-migration and a moderation in job growth.

The average residential resale price ended 2007 at $338,009, representing an increase of almost 35 per cent over the annual average set in the previous year. Readers should be mindful that all of these gains in the annual average occurred in the first five months of the year. As noted above, market balance shifted substantially during the summer months and price acceleration vanished as inventories soared and sales slumped. Prices were in the doldrums during the second half of the year as buyers gained the upper hand. During the fourth quarter of last year and the early months of 2008, sale prices have largely moved sideways on a month-over-month

Figure 5

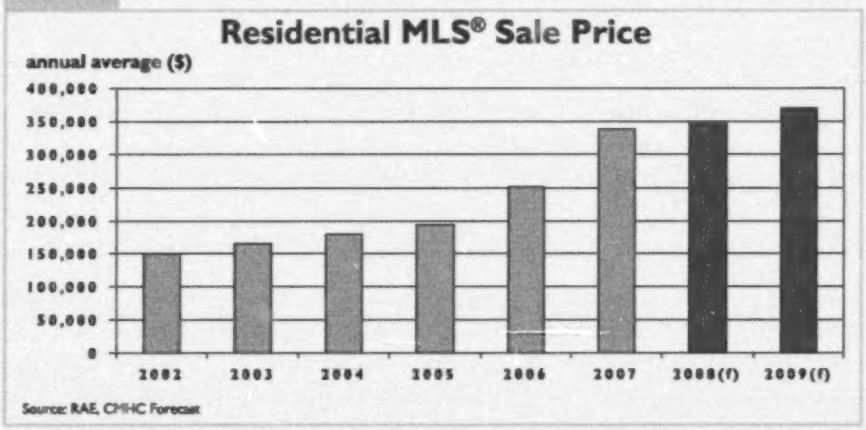


Table 2
MLS SALES - SINGLE-DETACHED UNITS
January - December (% chg 2006/2007)

	Sales			Average Price ($)		
	2006	2007	% chg	2006	2007	% chg
Northwest	460	385	-16.3	258,081	356,632	38.2
North Central	2,150	1,673	-22.2	284,387	393,376	38.3
Northeast	682	520	-23.8	242,414	334,223	37.9
Central	732	470	-35.8	187,403	279,579	49.2
West	1,164	1,023	-12.1	352,393	478,467	35.8
Southwest	1,667	1,392	-16.5	396,568	527,345	33.0
Southeast	1,972	1,730	-12.3	289,083	395,442	36.8
St. Albert	1,013	793	-21.7	342,002	484,601	41.7
Sherwood Park	861	794	-7.8	346,606	459,641	32.6
Leduc	240	308	28.3	268,559	371,622	38.4
Spruce Grove	416	329	-20.9	278,000	386,847	39.2
Stony Plain	232	186	-19.8	273,760	387,778	41.6
Ft. Saskatchewan	208	227	9.1	300,503	400,165	33.2
All EREB areas	**13,643**	**11,765**	**-13.8**	**292,829**	**400,304**	**36.7**

Source: Realtors Assoc. of Edmonton

basis. We look for a gradual shift to a more balanced market in the second half of 2008 as sales improve relative to new listings. Average home prices will rise by only 3.4 per cent in 2008, with most of the gains occurring after mid-year. As noted above, this scenario faces some downside risk associated with a higher than expected volume of listings combined with languishing sales. A continued improvement in market balance in 2009 will result in a price increase of almost six per cent for an annual average of $370,000.

Slower Growth in Carrying Costs of Home Ownership

A relatively stable mortgage rate environment combined with a moderation in price growth will help to ease affordability constraints across the region both this year and in 2009. During 2006 and 2007, the carrying costs associated with purchasing a typical dwelling sold on the MLS® rose by over 35 per cent each year due to rising mortgage rates and accelerating home prices. This year, CMHC expects the carrying costs of buying the average home to rise by only 4.4 per cent followed by a 5.4 per cent increase in 2009. Average weekly earnings have been rising by over six per cent on an annual average basis over the past two years. As such, this slowdown in carrying cost increases should provide some welcome relief, particularly for households contemplating a move out of rental into home ownership.

RENTAL MARKET

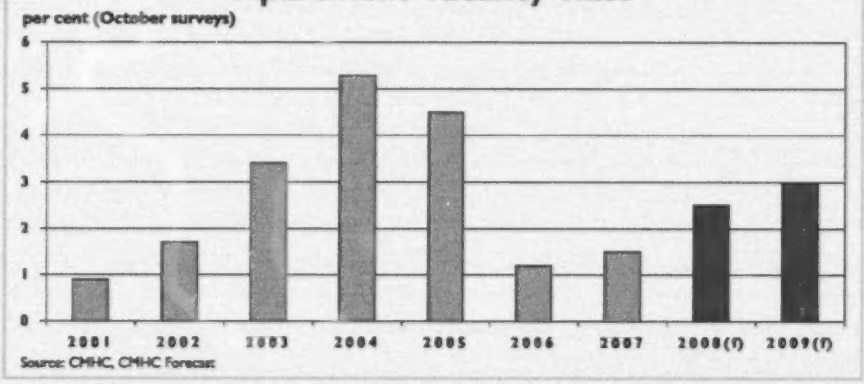
Vacancies Increase in 2008

Apartment vacancies across Metro Edmonton inched upward in 2007 due to moderation in net migration during the second half of the year which slowed household formation. Rapidly accelerating rent increases encouraged some renter households to double up last year and also prevented some new renter households from forming due to affordability constraints. However, demand for rental units will remain strong due to employment and income growth and the continued higher costs of homeownership.

With rental completions remaining low in 2008, readers would typically expect little upward movement in vacancies within purpose-built rental apartments. However, a significant number of new condominiums currently under construction will end up in the rental pool. We look

Figure 6

Apartment Vacancy Rate



Source: CMHC, CMHC forecast

for larger increases in vacancies to show up in CMHC's condominium rental survey next October due to the anticipated surge in condo apartment completions in 2008. However, the commercial rental sector will not escape the increased competition, with the rental apartment vacancy rate rising to 3.0 per cent this October and 3.5 per cent by October 2009.

Also helping on the supply side will be a temporary lull in rental buildings converting to condominiums. Soaring prices for resale condominiums during 2006 and the first half of 2007 provided a strong incentive for some rental building owners to convert their units and capitalize on the large gap between rental and homeowner value for a typical apartment. However, with condo resale prices largely flat since last summer and little improvement expected this year, some of the incentive to convert has been diminished and this should put a brake on the rates of conversion to homeownership.

Despite the improved supply of apartments across the region, strong demand for rental housing and higher operating costs will keep rents rising in 2008. For a two-bedroom rental apartment, rents are forecast to increase by $67 per month between October 2007 and October 2008 to an average of $1,025 per month.

MORTGAGE RATE OUTLOOK

Mortgage rates will remain relatively flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

ECONOMIC OVERVIEW

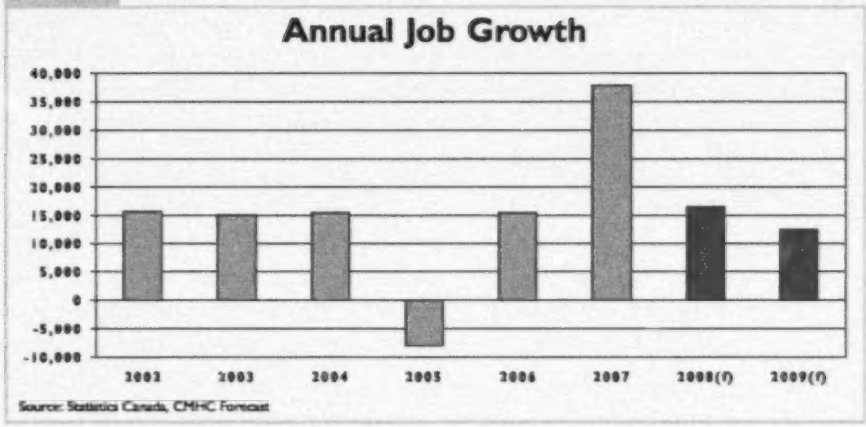
Economy Remains Hot in 2008

The economic outlook across Canada in the spring of 2008 is facing some strong headwinds including a global credit crunch, high energy costs, a slumping US economy and a high Canadian dollar. While Central Canada in particular has been buffeted by these disruptive forces, the province of Alberta's outlook remains relatively buoyant thanks to strong commodity prices and major capital investment. The Edmonton metropolitan area in particular appears to be well placed to weather any economic storms that might be brewing across the continent.

Despite the positive outlook, lower net migration since the summer of 2007 has eased demand for new housing across the region just when the construction industry was running in top gear. This caused markets to shift rapidly in favour of buyers and darkened the outlook for new home construction this year. However, non-residential construction sector is expected to remain very hot over the forecast period. Most commercial real estate assets are experiencing very low vacancies and rapidly rising rents and this will spur demand for office, retail and industrial properties. Expansions in the energy sector in areas such as the Alberta Industrial Heartland will continue unabated in support of the burgeoning oil sands operations in the province's northeast. Government spending on infrastructure will also remain strong. On the downside, costs for labour, construction materials and serviced land will result in sustained cost pressures on new developments despite a slowdown in the housing sector.

Job creation across Greater Edmonton was extremely robust in 2007 as the region's tight labour market responded to the strong in-migration that occurred in 2006. Low unemployment resulted in a second year of strong wage gains last year and we look for continued growth in both business investment and consumer spending going forward. Weaker net migration along with slower job growth both this year and in 2009 will have an impact on demand for both new and existing housing. While economic growth will remain strong by historic standards, any improvements in the housing sector in late 2008 and in 2009 will have more to do with a rebalancing of inventories which should provide builders and developers with some additional optimism.

Figure 7



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Forcast Summary Edmonton CMA Spring 2008	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	18,634	21,984	20,427	18,500	-9.4	19,000	2.7
MLS® New Listings	25,820	25,393	40,708	43,000	5.6	35,000	-18.6
MLS® Average Price ($)	193,934	250,915	338,636	350,000	3.4	370,000	5.7
New Home Market							
Starts:							
Single-Detached	7,623	9,064	7,682	4,500	-41.4	5,200	15.6
Multiples	5,671	5,906	7,206	5,000	-30.6	5,000	0.0
Starts - Total	13,294	14,970	14,888	9,500	-36.2	10,200	7.4
Average Price ($):							
Single-Detached	268,252	308,726	438,866	490,000	11.7	515,000	5.1
Median Price ($):							
Single-Detached	248,300	282,500	409,900	457,000	11.5	480,000	5.0
New Housing Price Index (% chg.)	6.5	28.9	32.1	5.0	-	7.0	-
Rental Market							
October Vacancy Rate (%)	4.5	1.2	1.5	3.0	-	3.5	-
Two-bedroom Average Rent (October) ($)	732	808	958	1,025	-	1,090	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-	6.83	-
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-	6.97	-
Annual Employment Level	545,800	561,300	599,100	615,630	2.8	628,130	2.0
Employment Growth (%)	-1.4	2.8	6.7	5.3	-	2.5	-
Unemployment rate (%)	4.6	3.9	3.8	4.2	-	4.0	-
Net Migration [1]	21,584	23,245	12,500	11,500	-8.0	12,000	4.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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